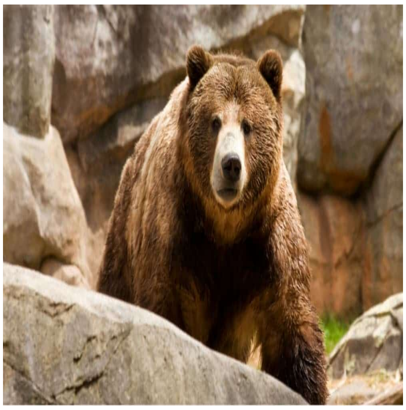

2 Stocks That Could Rally in a Bear Market

Description

Many investors are convinced that we're heading into a recession as soon as next year. While it's never a good idea to base your investment decisions on economic forecasts, it is vital to be prepared for whatever the market throws your way.

The markets could certainly plunge as the recession fears become a self-fulfilling prophecy, but another likely scenario is a sudden market surge that could bring the **S&P 500** to new heights.

It all depends on the outcome of various big-picture events. Although stocks are moving based on short-term big-picture news, investors need to remember that earnings and things unique to individual companies themselves still matter.

What we do know is that the bull market is around 10 years old, and the market cap-to-GDP ratio (the Warren Buffett indicator) is ridiculously high — and a likely reason why Buffett is hoarding cash hand over fist.

Amid such an environment, it's only prudent to have a portion of your portfolio devoted to names that can hold their own (and even thrive) in a down market.

Here are two stocks that look mispriced and could stand to rally once the bear awakens from its hibernation:

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) isn't the same doomsday investment as it was before Donald Trump's entry into the White House (Prem Watsa remains bullish on the Trump administration).

However, its assets are still allocated with downside protection in mind, which means hedges, shorts, and all the sort are still on the table, although they're not as numerous as they were when Watsa was bearish on the economy.

Watsa's a smart investor, but he's not immune from slumps. Fairfax is in a massive slump and is trading at near decade-low valuations.

What you'll get out of Fairfax at this juncture is a robust insurance and holding company with a competent manager at a low price. What you're not getting is near-term outperformance because Watsa is one of the most patient investors out there; unlike many big-league institutional investors, he's not being pressured to exit questionable positions.

Watsa is a deep-value investor at heart and with downside protection still very much in place, Fairfax is one of the few firms that could rally as other stocks implode. Fairfax's underwriting track record has shown signs of improvement, but unless you're willing to hold the name for a decade, you may want to look elsewhere.

Hydro One

Hydro One (TSX:H) is another stock that tends to zig when the markets zag. The company is essentially operating as a monopoly in the state of Ontario. Although Canadian rules disallow Hydro One to raise rates that aren't deemed as "fair," the company still has one of the most robust regulated cash flow streams out there.

You're getting flat growth from Hydro One at a fairly expensive valuation (the stock trades at 17 times next year's expected earnings). But you're also getting a low degree of correlation to the broader markets and dividend stability (and subtle growth) that's nearly unmatched.

Operating as a monopoly is both a blessing and a curse. But fortunately, if the markets were to tank tomorrow, Hydro One is one of the few Canadian stocks that would be spared of substantial damage. If anything, the name could rally as investors flee to risk-off securities.

While Hydro One may stand to underperform in an upmarket, you'll still get an excellent 4% yield to finance your income fund and a reasonable amount of growth that puts bond funds to absolute shame.

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